

SAUGATUCK-DOUGLAS DISTRICT LIBRARY

AUDIT REPORT

YEAR ENDED JUNE 30, 2004

DELONG & BROWER P.C.

CERTIFIED PUBLIC ACCOUNTANTS ■ FINANCIAL CONSULTANTS

238 Hoover Blvd. ■ Suite 10 ■ Holland, MI 49423 ■ 616.396.0500 ■ FAX 616.396.4170 ■ 62 Center St. ■ P.O. Box 301 ■ Douglas, MI 49406 ■ 269.857.1884

www.cpaholland.com

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

| | | | |
|---|---------------------------------|--|--------------------------|
| Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | Local Government Name SAUGATUCK-DOUGLAS DISTRICT LIBRARY | County ALLEGAN |
| Audit Date 6/30/04 | Opinion Date 11/29/04 | Date Accountant Report Submitted to State: | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

| | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations. | ✓ | | |
| Reports on individual federal financial assistance programs (program audits). | | | ✓ |
| Single Audit Reports (ASLGU). | | | ✓ |

| | | | |
|---|------------------------|--------------------|---------------------|
| Certified Public Accountant (Firm Name) DELONG & BROWER, PC | | | |
| Street Address 238 HOOVER BLVD, SUITE 10 | City HOLLAND | State MI | ZIP 49423 |
| Accountant Signature | | Date | |

TABLE OF CONTENTS

| | |
|---|---------|
| INDEPENDENT AUDITOR'S REPORT | Page 1 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS | Page 3 |
| FINANCIAL STATEMENTS | |
| Government-wide Financial Statements: | |
| Statement of Net Assets | Page 5 |
| Statement of Activities | Page 6 |
| Fund Financial Statements: | |
| Governmental Funds: | |
| Balance Sheet | Page 7 |
| Reconciliation of Balance Sheet of Governmental Funds to Net Assets | Page 8 |
| Statement of Revenue, Expenditures, and Changes in Fund Balances | Page 9 |
| Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities | Page 10 |
| Notes to Financial Statements | Page 11 |
| REQUIRED SUPPLEMENTAL INFORMATION | |
| Budgetary Comparison Schedule – Operating Fund | Page 17 |

DELONG & BROWER P.C.

CERTIFIED PUBLIC ACCOUNTANTS ■ FINANCIAL CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Holland, Michigan
November 29, 2004

Library Board
Saugatuck-Douglas District Library

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Saugatuck-Douglas District Library as of and for the year ended June 30, 2004, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards and the standards generally accepted in the United States of America applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Saugatuck-Douglas District Library as of June 30, 2004 and the respective changes in financial position, thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Library has implemented a new financial reporting model, as required by the provisions of the GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, as of July 1, 2003.

The management's discussion and analysis and budgetary comparison information on pages 3 through 4 and 16 are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Saugatuck-Douglas District Library's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

DELONG & BROWER, P.C.

De Long & Brower, P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Saugatuck-Douglas District Library (the "Library"), we offer readers of the Library financial statements this narrative review and analysis of the financial activities for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Library's financial statements. The Library's basic financial statements comprise three components:

1. Government-wide statements
2. Fund financial statements, and
3. Notes to the financial statements

This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Statements

The statement of net assets presents information on all of the Library's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Library is improving or deteriorating.

The statement of activities presents information showing how the Library's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

The government-wide financial statements can be found on pages 5 and 6 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Library, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Library is accounted for in governmental funds.

Governmental Funds

The Library maintains governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenue, expenditures, and changes in fund balances for the operating fund and gift and memorial fund, each of which are major funds for financial reporting purposes as defined by GASB Statement #34.

The Library adopts an annual appropriated budget for the operating fund. A budgetary comparison statement has been provided herein to demonstrate compliance with that budget.

The basic governmental fund financial statements can be found on pages 7 through 10 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the Library's financial statements. The notes to the financial statements can be found on pages 11 through 15 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This is limited to this management discussion and analysis and the budgetary comparison schedule found on page 17 of this report.

Economic Factor and Next Year's Budgets and Rates

The following factors were considered in preparing the Library's budget for the 2004-2005 fiscal year. Estimation of grants and contributions will be reduced because fund raising is more challenging.

Financial Analysis of the Government's Funds

As of the end of the current fiscal year the combined fund balance of \$115,721 reflects a decrease of \$16,906 from the previous year; a decrease of 13%. This decrease was due mainly to increased wage expenditures and additional capital outlay due to the addition of the young adult room.

The Library's primary source of revenue is from property taxes, representing 62% of total Operating Fund revenue. Penal fines are the secondary funding source, representing 25% of total Operating Fund revenue.

Salaries and payroll taxes are a significant expense of the Library, representing 48% of total Operating Fund expenditures.

Requests for Information

This financial report is designed to provide a general overview of Library's finances for all those with an interest in the Library's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director, Saugatuck-Douglas District Library, PO Box 789, Douglas, MI 49406-0789.

SAUGATUCK-DOUGLAS DISTRICT LIBRARY
STATEMENT OF NET ASSETS
JUNE 30, 2004

| | <u>Governmental</u> <u>Activities</u> |
|--|--|
| ASSETS | |
| Cash in Bank | |
| Checking Account | \$ 78,889 |
| Investments | 59,142 |
| Accounts Receivable | 6,353 |
| Capital Assets less Accumulated Depreciation of \$133,383 | <u>330,910</u> |
| TOTAL ASSETS | <u><u>\$ 475,294</u></u> |
| LIABILITIES AND NET ASSETS | |
| LIABILITIES | |
| Accounts Payable | \$ 25,891 |
| Payroll Taxes Payable | <u>2,772</u> |
| Total Liabilities | <u>28,663</u> |
| NET ASSETS | |
| Investment in Capital Assets | 330,910 |
| Unrestricted | <u>115,721</u> |
| Total Net Assets | <u>446,631</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 475,294</u></u> |

The accompanying notes are an integral part of these statements.

SAUGATUCK-DOUGLAS DISTRICT LIBRARY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

| | <u>Program Revenues</u> | | | Governmental Activities |
|---|-------------------------|---------------------------------|--|--|
| | <u>Expenses</u> | <u>Charges for Services</u> | <u>Operating Grants/ Contributions</u> | <u>Net (Expense) Revenue and Changes in Net Assets</u> |
| FUNCTIONS/PROGRAMS | | | | |
| Governmental Activities: | | | | |
| Programs | \$ 82,465 | \$ - | \$ - | \$ (82,465) |
| General and Administrative | 99,835 | - | 179 | (99,656) |
| Depreciation (Unallocated) | 39,196 | - | - | (39,196) |
| Total Governmental Activities | <u>\$ 221,496</u> | <u>\$ -</u> | <u>\$ 179</u> | <u>\$ (221,317)</u> |
| General Revenues: | | | | |
| Property Taxes, Levied for General Purposes | | | | 137,634 |
| Penal Fines | | | | 55,900 |
| State Sources | | | | 5,039 |
| Interest and Investment Earnings | | | | 1,254 |
| Contributions | | | | 20,483 |
| Other | | | | 13,646 |
| Total General Revenues | | | | <u>233,956</u> |
| Change in Net Assets | | | | 12,639 |
| Net Assets - Beginning of Year | | | | <u>433,992</u> |
| Net Assets - End of Year | | | | <u>\$ 446,631</u> |

The accompanying notes are an integral part of these statements.

SAUGATUCK-DOUGLAS DISTRICT LIBRARY
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2004

| | <u>Operating</u> <u>Fund</u> | <u>Gift</u> <u>and</u> <u>Memorial</u> <u>Fund</u> | <u>Total</u> <u>(Memorandum</u> <u>Only)</u> |
|--|---------------------------------|---|--|
| ASSETS | | | |
| Cash in Bank | | | |
| Checking Account | \$ 68,186 | \$ 10,703 | \$ 78,889 |
| Investments | 59,142 | - | 59,142 |
| Accounts Receivable | 6,353 | - | 6,353 |
| TOTAL ASSETS | <u>\$ 133,681</u> | <u>\$ 10,703</u> | <u>\$ 144,384</u> |
| LIABILITIES AND NET ASSETS | | | |
| LIABILITIES | | | |
| Accounts Payable | \$ 25,891 | \$ - | \$ 25,891 |
| Payroll Taxes Payable | 2,772 | - | 2,772 |
| Total Liabilities | <u>28,663</u> | <u>-</u> | <u>28,663</u> |
| FUND BALANCES | | | |
| Unrestricted | | | |
| Undesignated Available for | | | |
| General Activities | 105,018 | 10,703 | 115,721 |
| Total Fund Balances | <u>105,018</u> | <u>10,703</u> | <u>115,721</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 133,681</u> | <u>\$ 10,703</u> | <u>\$ 144,384</u> |

The accompanying notes are an integral part of these statements.

SAUGATUCK-DOUGLAS DISTRICT LIBRARY
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS
JUNE 30, 2004

| | |
|---|-------------------|
| TOTAL FUND BALANCES - GOVERNMENTAL FUNDS | \$ 115,721 |
|---|-------------------|

Amounts reported for governmental activities in the Statement of
Net Assets are different because:

Capital assets used in governmental activities are not financial
resources and are not reported in the funds:

| | | |
|-----------------------------------|------------------|---------|
| The cost of capitalized assets is | \$ 464,293 | |
| Accumulated depreciation is | <u>(133,383)</u> | |
| | | 330,910 |

| | |
|-------------------------|--------------------------|
| TOTAL NET ASSETS | <u><u>\$ 446,631</u></u> |
|-------------------------|--------------------------|

The accompanying notes are an integral part of these statements.

SAUGATUCK-DOUGLAS DISTRICT LIBRARY
GOVERNMENTAL FUNDS
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2004

| | <u>Operating</u> <u>Fund</u> | <u>Gift and</u> <u>Memorial</u> <u>Fund</u> | <u>Total</u> <u>(Memorandum</u> <u>Only)</u> |
|--|---------------------------------|---|--|
| REVENUE | | | |
| Local Sources | | | |
| Property Taxes | \$ 137,634 | \$ - | \$ 137,634 |
| Penal Fines | 55,900 | - | 55,900 |
| Interest | 1,214 | 40 | 1,254 |
| Contributions | 10,418 | 10,065 | 20,483 |
| Other | 12,006 | 1,640 | 13,646 |
| Grants | - | 179 | 179 |
| State Sources | 5,039 | - | 5,039 |
| Total Revenue | 222,211 | 11,924 | 234,135 |
| EXPENDITURES | | | |
| Salaries, Wages and Payroll Taxes | 120,743 | - | 120,743 |
| Office Supplies | 7,953 | - | 7,953 |
| Books | 15,103 | - | 15,103 |
| Periodicals and Newspapers | 3,543 | - | 3,543 |
| Audio/Visual and Non-Print Material | 12,192 | - | 12,192 |
| Dues | 6,904 | - | 6,904 |
| Programs | 4,393 | - | 4,393 |
| Travel and Conferences | 808 | - | 808 |
| Insurance | 3,886 | - | 3,886 |
| Utilities | 5,175 | - | 5,175 |
| Repairs and Maintenance | 9,160 | - | 9,160 |
| Advertising | 932 | - | 932 |
| Audit | 1,950 | - | 1,950 |
| Professional Fees | 621 | - | 621 |
| Computer Services | 9,640 | - | 9,640 |
| Miscellaneous | 2,997 | - | 2,997 |
| Capital Outlay | 45,041 | - | 45,041 |
| Total Expenditures | 251,041 | - | 251,041 |
| EXCESS (DEFICIT) OF REVENUE | | | |
| OVER EXPENDITURES | (28,830) | 11,924 | (16,906) |
| OTHER SOURCES/(USES) | | | |
| Operating Transfers | 3,072 | (3,072) | - |
| EXCESS (DEFICIT) OF REVENUE OVER EXPENDITURES | | | |
| AND OTHER SOURCES/(USES) | (25,758) | 8,852 | (16,906) |
| FUND BALANCE - JULY 1, 2003 | 130,776 | 1,851 | 132,627 |
| FUND BALANCE - JUNE 30, 2004 | \$ 105,018 | \$ 10,703 | \$ 115,721 |

The accompanying notes are an integral part of these statements.

SAUGATUCK-DOUGLAS DISTRICT LIBRARY
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS **\$ (16,906)**

Amounts reported for governmental activities in the Statement of
 Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement
 of Activities, these costs are allocated over their estimated useful lives
 as depreciation.

| | | |
|----------------------|---------------|--------|
| Depreciation Expense | \$ (23,916) | |
| Capital Outlay | <u>45,041</u> | |
| | | 21,125 |

Governmental funds report purchase of material as expenditures; in the
 Statement of Activities, these costs are allocated over their estimated
 useful lives as depreciation

| | | |
|----------------------|---------------|--------------|
| Depreciation Expense | \$ (15,280) | |
| Capital Outlay | <u>23,700</u> | |
| | | <u>8,420</u> |

CHANGE IN NET ASSETS **12,639**

BEGINNING NET ASSETS **433,992**

ENDING NET ASSETS **\$ 446,631**

The accompanying notes are an integral part of these statements.

SAUGATUCK-DOUGLAS DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1: General Statement

The Saugatuck-Douglas District Library is a library created by the following governmental units - City of Saugatuck, Village of Douglas and Saugatuck Township. In addition, through contractual arrangements, it also serves Laketown Township and Manlius Township. All of the above are located in Allegan County, Michigan.

The Library is governed by a library board consisting of six members, including a president, vice-president, secretary and treasurer.

NOTE 2: Summary of Significant Accounting Policies

The accounting policies of Saugatuck-Douglas District Library (the "Library") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Library.

Reporting Entity

The Saugatuck-Douglas District Library is the lowest level of government which has oversight responsibility and control over all activities related to libraries in Douglas. The library receives funding from local and state government sources and must comply with the concomitant requirements of these funding source entities. However, the Library is not included in any other governmental "reporting entity" as defined in NCGA Statement 3 since Library Board members are elected by the public and have decision making authority, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

District-Wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the district's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenditures of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

SAUGATUCK-DOUGLAS DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 2: Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

District-Wide Statements - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Fund-Based Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and therefore have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The fiduciary fund statement is also reported using the current financial resources measurement focus and the accrual basis of accounting.

The School reports the following major governmental funds:

General Fund - The General Fund is used to account for all School resources and expenditures except for those required to be accounted for in another fund.

Gift and Memorial Fund - These funds are used to record contributions and support for the general operation of the Library.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments

Cash and investments include certificates of deposit. Investments are stated at fair value.

SAUGATUCK-DOUGLAS DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 2: Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets, which include leasehold improvements, equipment, and library materials are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extended asset life are not capitalized.

The Library does not have infrastructure type assets.

Leasehold Improvements, equipment, and books are depreciated using the straight-line method over the following useful lives:

| | |
|-------------------------------|------------|
| Leasehold Improvements | 20 years |
| Furniture and other equipment | 5-20 years |
| Books and other materials | 5-10 years |

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data/Reclassifications

Comparative data is not included in the Library's financial statements.

Accounting Change

Effective July 1, 2003 the Library implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). Changes to the Library's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD&A) section providing analysis of the Library's overall financial position and results of operations has been included.

District-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Library's activities have been included.

Capital assets in the governmental activities column of the Statement of Net Assets includes assets totaling \$ 464,293. Previously these assets were reported in the General Fixed Assets Account Group. Capital assets at July 1, 2003 previously reported in the General Fixed Assets Account Group have been adjusted by \$ 73,527 to reflect the historical cost of the School's capital assets at that date.

SAUGATUCK-DOUGLAS DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 3: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State law for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the library to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits districts to amend its budgets during the year. There were no significant amendments during the year.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end. The commitments will be reappropriated and honored during the subsequent year.

Excess of Expenditures Over Appropriations in Budgeted Funds

The Library did not have significant expenditure budget variances.

Fund Deficits

The Library has no accumulated fund balance deficits at June 30, 2004.

NOTE 4: DONATED MATERIALS AND SERVICES

Donated materials and equipment are reflected, if material, as contributions in the accompanying statements at their estimated values at the date of receipt. No amounts have been reflected in the statements for donated services inasmuch as no objective basis is available to measure the value of such services.

NOTE 5: INVESTMENTS

At June 30, 2004 the \$ 59,142 of investments on the balance sheet is represented by certificates of deposit, which are covered by federal depository insurance. The carrying value of the investments approximates the market value at the balance sheet date.

Certificates of deposit at financial institutions amounted to \$ 59,142 on June 30, 2004 as follows:

| <u>Bank</u> | <u>Maturity</u> | <u>Interest Rate</u> | <u>Value</u> |
|----------------|-----------------|--------------------------|------------------|
| Shoreline Bank | 07/16/2004 | .70% | \$ 22,292 |
| Macatawa Bank | 05/03/2005 | 1.25% | 36,850 |
| Total | | | <u>\$ 59,142</u> |

SAUGATUCK-DOUGLAS DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 6: LEASE OF FACILITIES

The Library leases its facilities from the Village of Douglas for a nominal fee. The lease is dated November 2, 1992 and runs until November 2, 2012. The lease is paid through November 2, 2012.

NOTE 7: EXPENDITURES IN EXCESS OF BUDGET

Uniform Accounting and Budgeting Act, P.A. 2 of 1968, as amended, requires that expenditures shall not be in excess of the amount budgeted.

During the year ended June 30, 2004, the Library incurred expenditures in excess of budget as follows:

| | <u>Amended Budget</u> | <u>Actual</u> | <u>Variance</u> |
|----------------------------|---------------------------|---------------|-----------------|
| Operating Funds – | | | |
| Salaries and Payroll Taxes | \$120,000 | \$ 120,743 | \$ 743 |
| Periodicals and Newspapers | 1,500 | 3,543 | 2,043 |
| Dues | 5,350 | 6,904 | 1,554 |
| Repairs and Maintenance | 6,500 | 9,160 | 2,660 |
| Professional Fees | - | 621 | 621 |
| Miscellaneous | 2,300 | 2,997 | 697 |

NOTE 8: CAPITAL ASSETS

Capital Asset activity of the Library's governmental activities was as follows:

| | <u>Balance July 1, 2003</u> | <u>Additions</u> | <u>Disposals and Adjustments</u> | <u>Balance June 30, 2004</u> |
|--------------------------------------|---------------------------------|------------------|--------------------------------------|----------------------------------|
| Assets not being depreciated | | | | |
| Artwork | \$ 11,719 | \$ 300 | \$ (897) | \$ 11,122 |
| Subtotal | 11,719 | 300 | (897) | 11,122 |
| Capital assets being depreciated: | | | | |
| Leasehold Improvements | 171,726 | 3,707 | (3,803) | 171,630 |
| Furniture and fixtures | 78,754 | 30,184 | (28,763) | 80,175 |
| Equipment | 74,494 | 10,036 | (40,064) | 44,466 |
| Books and materials | 133,200 | 23,700 | - | 156,900 |
| Subtotal | 458,174 | 67,627 | (72,630) | 453,171 |
| Accumulated depreciation: | | | | |
| Leasehold Improvements | 40,442 | 8,568 | - | 49,010 |
| Furniture and fixtures | 10,849 | 8,337 | - | 19,186 |
| Equipment | 7,117 | 7,010 | - | 14,127 |
| Books and materials | 35,780 | 15,280 | - | 51,060 |
| Subtotal | 94,188 | 39,195 | - | 133,383 |
| Net capital assets being depreciated | 363,986 | 28,432 | (72,630) | 319,788 |
| Net capital assets | \$ 375,705 | \$ 28,732 | \$ (73,527) | \$ 330,910 |

Depreciation expense was not charged to activities as the Library considers its assets to impact multiple activities and allocation is not practical.

REQUIRED SUPPLEMENTAL INFORMATION

**SAUGATUCK-DOUGLAS DISTRICT LIBRARY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE - OPERATING FUND
YEAR ENDED JUNE 30, 2004**

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Over (Under) Final Budget</u> |
|---|----------------------------|-------------------------|--------------------|--------------------------------------|
| REVENUE | | | | |
| Local Sources | | | | |
| Property Taxes | \$ 137,500 | \$ 137,500 | \$ 137,634 | \$ 134 |
| Penal Fines | 50,000 | 50,000 | 55,900 | 5,900 |
| Interest | 1,000 | 1,000 | 1,214 | 214 |
| Contributions | - | 7,000 | 10,418 | 3,418 |
| Other | 8,500 | 8,500 | 12,006 | 3,506 |
| Grants | - | - | - | - |
| State Sources | 4,000 | 4,000 | 5,039 | 1,039 |
| Total Revenue | <u>201,000</u> | <u>208,000</u> | <u>222,211</u> | <u>14,211</u> |
| EXPENDITURES | | | | |
| Salaries, Wages and Payroll Taxes | 120,000 | 120,000 | 120,743 | (743) |
| Office Supplies | 14,500 | 14,500 | 7,953 | 6,547 |
| Books | 21,000 | 21,000 | 15,103 | 5,897 |
| Periodicals and Newspapers | 1,500 | 1,500 | 3,543 | (2,043) |
| Audio/Visual and Non-Print Material | 13,000 | 13,000 | 12,192 | 808 |
| Dues | 5,350 | 5,350 | 6,904 | (1,554) |
| Programs | 4,500 | 7,000 | 4,393 | 2,607 |
| Travel and Conferences | 1,350 | 1,350 | 808 | 542 |
| Insurance | 4,300 | 4,300 | 3,886 | 414 |
| Utilities | 8,700 | 8,700 | 5,175 | 3,525 |
| Repairs and Maintenance | 6,500 | 6,500 | 9,160 | (2,660) |
| Advertising | 1,000 | 1,000 | 932 | 68 |
| Audit | 2,000 | 2,000 | 1,950 | 50 |
| Professional Fees | - | - | 621 | (621) |
| Computer Services | 14,000 | 14,000 | 9,640 | 4,360 |
| Miscellaneous | 2,300 | 2,300 | 2,997 | (697) |
| Capital Outlay | 21,000 | 51,000 | 45,041 | 5,959 |
| Total Expenditures | <u>241,000</u> | <u>273,500</u> | <u>251,041</u> | <u>22,459</u> |
| EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES | <u>(40,000)</u> | <u>(65,500)</u> | <u>(28,830)</u> | <u>36,670</u> |
| OTHER SOURCES/(USES) | | | | |
| Operating Transfers | 40,000 | 40,000 | 3,072 | (36,928) |
| DEFICIT OF REVENUES OVER EXPENDITURES AND OTHER SOURCES/(USES) | <u>\$ -</u> | <u>\$ (25,500)</u> | <u>\$ (25,758)</u> | <u>\$ (258)</u> |

DELONG & BROWER P.C.

CERTIFIED PUBLIC ACCOUNTANTS ■ FINANCIAL CONSULTANTS

November 29, 2004

Board of Directors
Saugatuck-Douglas District Library

In connection with our audit of the books and records of the Saugatuck-Douglas District Library at June 30, 2004, we wish to make the following comments and recommendations:

1. During the fiscal year ended June 30, 2004 there were expenditures in excess of the amount budgeted for various accounts. In some instances, these over budget amounts are due to accounts payable entries made by the auditor. To comply with PA 2 of 1968 Uniform Accounting and Budgeting Act, we recommend budget figures be reviewed periodically and amended as needed to adjust for changes during the year.
2. During our test of payroll transactions, it appeared that the hours employees were paid for were incorrectly computed. We recommend a more organized and detailed system be discussed and established. The system adopted should allow for accurate recording of start and finish time of employees and approval of calculation of hours by management.
3. During our test of expenditures and vendor payments, it was noted that some vendors were paid twice. In some instances the vendor was paid correctly, however the expenditure was recorded twice on the books. In other instances the vendor was paid twice for the same invoice. We recommend a more thorough review of the recordkeeping be performed by management and the board. Also, a review of outstanding checks would discover checks written twice and not cleared. In addition, a review of accounts payable listing would discover bills entered twice.
4. During our audit of donations received from Friends of the Library we noted many items that the Friends paid for but were not recorded on the books. We recommend receiving monies from Friends of the Library on a reimbursement basis only. The Library would pay for expenditures of programs and expenses and submit a copy of the invoice to the Friends for reimbursement of pledged amounts. This would insure that all expenditures are adequately recorded on the books of the Library.
5. During our review of bank reconciliations we noted that there were many old outstanding checks existing in bank accounts. A more accurate reflection of cash available for use will be reflected if outstanding items are monitored and written off periodically. We recommend that the list of outstanding items in each bank account be reviewed by management and the board.

We have once again appreciated the opportunity to work with individuals who are committed to Saugatuck-Douglas District Library and its patrons. The majority of the recommendations made in our last management letter have been successfully implemented.

Respectively submitted,

DELONG & BROWER, P.C.

Certified Public Accountants